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# **SUNNYVALE BUDGET AND FISCAL POLICIES**

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## **BUDGET POLICIES**

### **Planning and Management System (PAMS)**

The Planning and Management System (PAMS) was designed to integrate the policymaking, service delivery, fiscal control and evaluation activities of the City into one strategic management blueprint. Comprised of three major components - General Plan, Service Delivery and Personnel/Program Evaluation, PAMS provides the City a more structured process of managing services, assigning responsibility and ensuring accountability.

### **General Plan**

The General Plan is a long-term planning document that provides the City with a framework for action, as well as the direction in which to focus that action. General Plan Elements are areas in which the City has elected to administer and manage the delivery of services to its citizens and customers. The seven General Plan Elements are Transportation, Community Development, Environmental Management, Public Safety, Socio-Economic, Cultural, and Planning and Management. Each element of the City's General Plan has a sub-element or series of sub-elements which make up the goals or standards desired for the future of the community. These sub-elements provide the avenue for which long-range policy making of the General Plan is developed and ultimately implemented.

### **Service Delivery**

The service delivery component of PAMS is the area in which the role of the program manager becomes essential. Program managers are ultimately responsible for meeting the service levels set by the Council and reflected in the Operating Budget. Achievement of the desired program results contributes to the accomplishment of the sub-element goal to which the operating program is related. A service delivery plan is composed of specific activities which personnel perform to accomplish defined products. Activities and their products are the actual services delivered.

### **Twenty-Year Resource Allocation Plan and Financial Planning**

The Twenty-year Resource Allocation Plan is the backbone of the City's financial planning process. For operating expenditures, twenty planning years are projected at assumed inflation and salary rates off the last year in which a detailed operating budget is presented. For capital expenditures, projects are planned out over the entire twenty-year horizon. For revenues, each

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major source has unique drivers that affect projections. This long-range planning gives the Council a tool in which it can project revenues, operating requirements and capital spending. It allows the cost of any policy decision to be measured in terms of long-range expenditure requirements, thereby raising "red flags" in areas where financial conditions may be unacceptable in the future. The Twenty-year Resource Allocation Plan has helped the City establish a pay-as-you-go philosophy, allowing money to be set aside in reserve funds for future service expansion or capital projects.

### **Two-Year Operating and Projects Budget**

Although the City reviews its budget on an annual basis, it prepares a detailed Operating Budget covering two years every other year. This means that operating budgets are not modified during the second year of the two-year budget. The two-year cycle for operating and projects do not coincide so staff focuses on one side of the budget each year. The Projects Budget is comprised of "non-operating efforts", so it includes projects that may go into operating budgets in other cities because they are one-time special efforts. Capital Improvements/Special Projects is probably the most crucial area in which the City must allocate and administer limited resources. This is where development of the City's infrastructure maintenance and replacement is managed.

The Projects portion of the Resource Allocation Plan is segregated into four categories: Capital, Special, Infrastructure and Outside Group Funding. Within each category, projects are divided by type: General, Housing, Parks, Sanitary Sewer, Solid Waste, Storm Drain, Street and Traffic Signal, Water and Community Development Block Grant (CDBG) Projects.

### **Types of Expenditures**

There are four major types of expenditures in the City's spending plan: operating, equipment, capital improvements and debt service. Operating expenditures are related to a program's base budget and include such items as general supplies, personnel costs and equipment rental. Major equipment expenses like computer hardware or city cars are provided for separately under a general services program to allow for compatibility and coordination. Capital improvements are expenditures which affect the economic vitality and quality of life in the community. A good example would be construction of a park or resurfacing a city street. Debt service allows an improvement to proceed earlier, when it is needed rather than being delayed until funds are accumulated in the City's treasury. It is used like a credit card - buying something today and paying for it over time. Debt service may be used to finance, for example, a new community center building.

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### **Cost Accounting**

Cost accounting is a method of accounting which provides for all the elements of cost incurred to accomplish a purpose, carry on an activity or complete a unit of work to be gathered together. By using this financial technique, the City is able to assess the true cost of providing a service. The City's internal users of information management, fleet and equipment, and buildings are assessed rental rates through their programs for the use and eventual replacement of such services and equipment. Employee benefits such as leave usage, retirement and insurances are also recovered by charging the programs that use personnel services. The City also uses an allocation system to distribute administrative costs to those activities that provide a service.

### **Basis of Budgeting**

Basis of budgeting refers to the method used for recognizing revenues and expenditures in the budget. For the City of Sunnyvale, the basis of budgeting is the same basis used for accounting. The modified accrual basis is followed in the Governmental and Agency Funds (for example, the General Fund and Special Revenue Funds such as the Park Dedication Fund). Under this basis, revenues are recognized when they become susceptible to accrual, that is, when they are both measurable and available. Measurable means that the amount of the transaction can be determined. Available means the amount is expected to be collected within the next two months for property taxes and next twelve months for all other revenues. Intergovernmental revenues (primarily grants) which are received as reimbursement for specific purposes or projects, are recognized based upon when the related expenditures are recorded. Intergovernmental revenues which are virtually unrestricted as to purpose and revocable only for failure to meet prescribed compliance requirements are reflected as revenues at the time of receipt or earlier if availability criterion are met.

The accrual basis is used in the Proprietary Fund types (for example, Enterprise Funds and Internal Service Funds). Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

The Comprehensive Annual Financial Report (CAFR) is prepared according to the "generally accepted accounting principles" (GAAP). The City prepares its budget in accordance with GAAP with the following exceptions:

- Loans requiring the use of current resources need to be budgeted as expenditures; in the CAFR, the disbursement of loans are treated as balance sheet items.

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- Appropriated budgets are not always needed for all of the City's funds. For example, a budget is not appropriated for the advance refunding of bonds since the resulting bond proceeds are deposited into escrow accounts and are considered restricted assets.
- Principal payments on long-term debt within the Enterprise Funds are applied to the outstanding liability in the CAFR while such items are treated as expenses in the budget.
- Capital outlay within the Enterprise Funds and Internal Service Funds are capitalized as fixed assets in the CAFR in contrast to being treated as expenses in the budget.
- The budget does not record depreciation expenses.
- The GAAP requires the reporting of investments at fair value. Since the City's policy is to hold investments to maturity, the changes in fair value are not reflected in the budget.

The CAFR shows fund expenditures and revenues on both a GAAP and Budget basis for comparison purposes.

### **Budgetary Policy and Control**

The City follows the provisions of its Planning and Management System, which is enacted as legislative policy when the annual budget is adopted. These provisions involve the City management, employees, the public, boards and commissions and the City Council at various times during the year culminating in the establishment of new or revised General Plan goals and objectives. The budget must implement the policies contained in the General Plan, and therefore, must be consistent therewith in all respects. The City follows these procedures, contained in the Planning and Management System, in establishing the budgetary data reflected in its financial statements:

1. During January of each year, a City Council workshop is held to discuss important fiscal issues, which may have short-term or long-term effects, on how the City provides and maintains services to its citizens and customers.
2. During May of each year, the City Manager submits to the City Council a recommended budget for the fiscal year commencing July 1. The City Charter requires that the City Council receive the City Manager's budget no later than thirty-five days prior to June 30.
3. The City Manager's recommended budget include budgets for equipment, operating costs, debt service costs, and capital, infrastructure and special projects for the ensuing

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year. The recommended budget also contains detailed long-term financial plans with projections for expenditures, revenues and reserves for an additional nineteen years.

4. During May of each year the City Council holds a workshop on the budget. The workshop is open to the public.
5. During June of each year the City Council holds a public hearing, legally required by the City Charter, where the public may submit written or oral comments regarding the entire budget or portions thereof.
6. Prior to June 30 of each year, the budget as modified by the City Council, is legally enacted by adoption of a budget resolution.
7. For Governmental and Agency Funds, the City Manager is authorized to reappropriate budgeted amounts between programs of the same fund and department, unless the reappropriation exceeds the thresholds outlined below, which require Council approval:

<b>Annual Program Budget</b>	<b>Reappropriation Threshold</b>	<b>Maximum Reappropriation Threshold (Annual)</b>
$\geq \$500,000$	\$100,000 or 5%, whichever is greater	\$250,000
$< \$500,000$	\$50,000 or 50%, whichever is less	\$50,000

For the Proprietary Funds and Internal Services Funds, if the expenditures for the fiscal year exceed actual revenues plus the planned appropriation from the Rate Stabilization Reserve Account or the Resource Allocation Plan Reserve Account, as the case may be, on an annualized basis, Council approval shall be required.

8. Budgets are legally adopted for all Governmental funds except for the Special Assessment Debt Service Fund. The Special Assessment Debt Service Fund does not have an adopted budget because the City is only required to make Debt Service payments in the event of property owner's default. Budgets are also legally adopted for all Proprietary Funds. Formal budgets are employed as a management control device for all funds in which a budget has been adopted. However, it serves as the primary means of

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spending control for the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

9. Budgets can be modified during the fiscal year if the need arises due to legislative mandate, City Council or City Manager directive or unanticipated change in service level. Budget Modifications must be approved by City Council and cover one fiscal year only. This allows management to focus on changes to the base budget during the next budget process.

### **Citizen Participation**

Citizens have an opportunity to participate in the Resource Allocation Planning Process through avenues such as Council-appointed boards and commissions, study sessions and public hearings.

Each fall, various boards and commissions examine changing conditions and prepare documents for Council consideration. Citizens may attend study sessions dealing with upcoming Council issues, and Council meetings scheduled on Tuesdays throughout the year. At the Council meetings, citizens are given an opportunity to speak during the public hearing period. In addition, staff and Council work together to prepare issues for the annual budget workshop which is also geared toward citizen involvement.

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## FISCAL POLICIES

The Fiscal Sub-Element of the General Plan includes the following guiding fiscal policies for the City's Budget and Resource Allocation Plan.

### *Accounting Principles*

Maintain accounting systems and financial management practices in conformance with Generally Accepted Accounting Principles.

### *Capital Improvement Design*

Design capital improvements to assure cost efficiency and to accomplish City goals and policies. Base the planning and design of capital improvements on standards which minimize construction costs, while assuring acceptable useful life and reducing maintenance requirements.

### *Capital Improvement Funding*

Use all available funding sources to finance capital improvement projects consistent with City priorities.

### *Capital Improvements Maintenance and Replacement*

Provide for optimal maintenance of capital improvements and schedule equipment for future replacement at the most cost-effective time. Give high priority to replacing capital improvements when they have deteriorated to the point where they are hazardous, incur high maintenance costs, negatively affect property values, or no longer serve their intended purposes.

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### ***Contingencies Reserve***

This reserve is to be used only in case of emergency or disaster, and is not intended for normal unanticipated expenditures. In the Fiscal Sub-Element, the policy calls for this reserve to be 10% of operations, but Council policy adopted in FY 1992/1993 changed it to 20% of operations for the General Fund. The Water and Wastewater Enterprise Funds maintain contingencies reserves of 25% of operations. The Solid Waste Enterprise Fund maintains contingencies reserve of 10% of operations to reflect that fact that this operation has less risk for damage or disaster. The reserve amount changes each year as operations of the Fund either increase or decrease.

### ***Debt Limits***

Limit use of debt so as not to place a burden on the fiscal resources of the City and its taxpayers. Generally, the method of financing selected for debt retirement should be based on who will benefit and who should pay for the cost of improvements.

### ***Enterprise Funds***

Fully account for and apportion all costs, fees, and General Fund transfers associated with enterprise funds. The costs of each enterprise, including the transfers from the General Fund, shall be offset by user charges and fees derived from the enterprise activity. "Costs" shall mean all operating, capital, debt service, contingency and administrative costs. Any revenues in excess of expenditures shall not be used for general municipal purposes.



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### ***General Fund Service Level Contingency Reserve***

This reserve was established in FY 1993/1994 to provide funds for increased service levels or costs in excess of inflation. The reserve was one-time and set to equal 5% of operations. Before FY 1993/1994, the General Fund contained an on-going set-aside called the “One Percent of Operations Set-Aside” that provided the ability to handle revenues that did not perform as well as projected and expenditures that increased more than inflation. This set-aside was replaced by the Service Level Contingency Reserve. Beginning in FY 2005/2006 the Service Level Contingency Reserve has been eliminated.

### ***General Fund Non-Recurring Events Reserve***

This reserve contains funds from FY 1997/1998 and FY 1998/1999 that resulted from greater than anticipated revenues and less than anticipated expenditures during the height of the dot.com boom. By Council action, these types of one-time funds resulting from the peak of the economic cycle were set aside for significant high-priority capital and special projects and not used to add recurring services. Most of the funds in this reserve have been used for these types of one-time costs. The remaining reserve has been eliminated for FY 2005/2006.

### ***General Fund Surplus***

Plan the effective use of surplus funds in order to accelerate service programming or reduce taxes. A General Fund surplus is defined to exist when the Ten Year Resource Allocation Plan indicates that a Ten Year Plan reserve exists in any one year of the plan and will continue to exist at that level or greater for each subsequent year of the Plan.

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### ***Intergovernmental Funds***

Recognize in long-range planning the lack of stability inherent in intergovernmental funds and reduce reliance on intergovernmental assistance. Discourage use of intergovernmental grant assistance for routine programs. Intergovernmental grants may be used for special projects which strengthen a program, have a definable starting and ending date, and do not expand a service in such a way as to require the substitution of local funds to continue part or all of the service once intergovernmental assistance ends.

### ***Internal Controls***

Maintain financial integrity and provide assurance that adequate internal controls are in place. Conduct periodic financial, operational, and management audits to assure that adequate internal controls exist and that management practices are in compliance with Federal, State and City rules and regulations.

### ***Land Acquisition***

Acquire land to meet City goals in the most cost efficient and timely manner. Assure that undeveloped land needed to meet City goals is given a high budgetary priority so that it can be acquired before it is developed. Developed land should be acquired in reasonable proximity to the time the property is required for City purposes.

### ***Performance Budget System***

Maintain and refine the Performance Budget System to assure its use for multi-year planning, full-cost accounting and budget monitoring. Present a balanced Ten-Year Resource Allocation Plan to the City Council annually and include a two-year operating budget.

### ***Purchasing Practices***

Maintain a purchasing system in conformance with generally accepted purchasing practices.

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### ***Reserves***

Provide a prudent level of reserves for future unexpected expenses and revenue declines; to accumulate funds to support future planned capital improvements; and to level high and low expenditure years in the Ten-Year Resource Allocation Plan.

### ***Resource Allocation***

Allocate resources in direct relation to general plan goals.

### ***Revenue Base***

Maintain a diversified and stable revenue base for the City. Establish user charges and fees at a level closely related to the cost of providing those services. Seek all possible Federal and State reimbursement for mandated projects and/or programs. Investigate potential new revenue sources, particularly those that do not add to the tax burden of residents or local businesses.

### ***Revenue Collection***

Develop and maintain an aggressive revenue collection program to assure that monies due the City are received in a timely fashion.

### ***Revenue Forecasting and Monitoring***

Develop and maintain a revenue monitoring system to assist in trend analysis and revenue forecasting.

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